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NOVEMBER 18-22

Effective Sub-Servicing Oversight



WHY IT IS IMPORTANT TO GINNIE MAE:

- Ginnie Mae recognizes that there are entities that specialize in servicing and are better equipped to manage the operational demands more effectively than entities whose primary focus is originations.
- Ineffective management of borrower default situations can impact an Issuer's liquidity which in turn impacts their successful participation in the Ginnie Mae MBS program

HOW THREE GINNIE MAE ISSUERS MONITOR THEIR SUB-SERVICERS:

- Freedom Mortgage
- Lakeview Loan Servicing
- Real Estate Mortgage Network

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CARLA WISE

Freedom Mortgage

Why Oversight

- It's the right thing to do!
- Loan performance, compliance and servicing quality are the responsibilities of the primary servicer/issuer
- Issuers responsibility cannot be transferred contractually or otherwise to any vendor, contractor or subservicer
- Rules of Ginnie Mae require oversight
- CFPB has provided guidance with respect to the primary servicers responsibility
- Oversight plan protects your organization and strengthens your company

Specific Ginnie Mae Requirements

Ginnie Mae “Eligibility Requirements”

- Issuers must possess demonstrated experience and management capacity
- Issuers may utilize a Ginnie Mae approved subservicer; however, the Issuer must have an individual(s) on its staff to oversee the sub-servicer’s performance
- Individuals must possess at least three years of broad servicing experience

Issuers and Subcontract Servicers

- For most pool types, the Issuers may arrange for a subcontractor servicer to perform certain servicing functions
- In subservicing arrangements the Issuer remains fully responsible for the subcontract servicer’s performance
- Any subcontract service/subservicer must be a Ginnie Mae-approved Issuer and meet all requirements for maintaining Ginnie Mae Issuer status

Approval of Subcontract Servicing

- The Issuer must submit approval of a subcontract servicer arrangement by submitting a cover letter and Master Servicing Agreement form HUD 11707

CFPB Guidance

CFPB Bulletin in April 2012

- CFPB expects supervised banks and nonbanks to oversee their business relationships with service providers in a manner that ensures compliance with Federal consumer financial law, “which is designed to protect the interests of consumers and avoid consumer harm.”
- “...the mere fact that a supervised bank or nonbank enters into a business relationship with a service provider does not absolve the supervised bank or nonbank of responsibility for complying with Federal consumer financial law to avoid consumer harm.”

Conducting Due Diligence/Oversight includes

- Establishing internal controls and ongoing monitoring to determine whether the service provider is complying with federal consumer laws...
- Requesting and reviewing the service provider’s policies, procedures, internal controls, and training materials to ensure that the service provider conducts appropriate training and oversight of employees...
- Contract with the service provider includes clear expectations about compliance...
- Taking prompt corrective action to fully address any problems identified
- Terminating the relationship where appropriate

Comprehensive Oversight Plan

Develop a Comprehensive Oversight Program

- Experienced Servicing Personnel with a broad based understanding of Ginnie Mae servicing requirements
- Staffing/Capacity Model for Oversight Staff
- Written and Comprehensive and Executable Plan that includes:
 - Focus on Borrower Care and compliance with consumer focused laws and requirements
 - Monitoring of complaints, trending and taking action to fix root cause
 - Compliance with all agency guidance, CFPB, Rules and Regulation
 - Financial viability, review of financial strength
 - Validation of proper experience levels of the staff employed by Subservicer
 - Training Program
 - Exception Reporting and Monitoring
 - Performance Metrics
 - Business Continuity

Performance Monitoring Oversight Plan

The plan should assist management in monitoring the overall performance and the performance of our subservicer with regard to servicing functions by means of:

- Trending data to proactively avoid future performance concerns
- Random and logistic sample testing
- On-site regular reviews
- Distinguish areas of low, medium, and high concerns
- Adverse selection for high risk areas and trending
- Identify and testing key controls
- Dashboards for daily risks vs. waiting for month end reporting

Specific Areas of Review

- Loan Boarding – Data Integrity
- Servicing Transfer – Information and Data Provided is Timely and Accurate
- Customer Care – The Borrower Experience is handled with great care
- Escrow - Proper handling of the borrowers escrow funds
- Special Loans Administration, ARM's, SCRA, Loan Resets
- Special Processes - Credit reporting, MERS, Billing Statements, Payoffs etc...
- Accounting /Investor Reporting /Remittance and Custodial Accounts
- Default processes, including Loss Mitigation, tracking DQ trending and %'s of defaults

Reporting and Corrective Action

- Regular ongoing reporting should be provided to executive management
- Follow up to address deficiencies/MAP
- Controls in place to prevent such risks from reoccurring
- Philosophy that all staff and management is expected to be held accountable for compliance
- Special attention directed to any deficiency that results in borrower harm or negative borrower experience
- Ratings system for grading any deficiency
- Corrective plan/action

Conclusion

The Issuer/Primary Servicer is held accountable for performance

- Compliance risk
- Reputation risk
- Operational risk
- Credit risk

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JULIO ALDECOCEA

Lakeview Loan Servicing, LLC

Sub-Servicing Oversight

- Lakeview Loan Servicing, LLC
 - One of Ginnie Mae's Top 10 Issuers (non-bank)
 - Oversight of 2 sub-servicers
 - Oversight of 3 document custodians
- Portfolio Growth
 - Originations
 - Bulk MSR acquisitions
 - Flow MSR acquisitions (PIIT)

Two Different Types of Oversight

- Servicing transfers oversight
 - Vary in size and complexity
 - Managing numerous stakeholders both external and internal
 - Requires a great deal of oversight for shorter periods of time
- Post servicing transfer oversight (Focus of this presentation)
 - Monitoring the day-to-day operations
 - Monitoring the performance
 - Addressing and resolving post-servicing transfer issues

Sub-Servicing Oversight

Monitoring Post Servicing Transfer Operations & Performance

- Daily
 - Review daily reports
 - Address issues
 - Make decisions
- Weekly
 - Management call with sub-servicer
 - Compliance call (F/C, breach letter, state specific letter, legislative changes, etc)
- Bi-weekly
 - F/C & Bankruptcy

Monitoring Post Servicing Transfer Operations & Performance

- Monthly
 - Actual portfolio performance vs. our expected performance
 - Early and Late Roll Rates Report
 - RFS Monthly Pool and Loan Data
 - Review and manage DQ2+, DQ3+ and DQP Ratios
 - Initiate Early Buyouts
 - Review Neighborhood Watch
 - Single Family Default Monitoring System (SFDMS)
 - VA Valeri Reports
 - Monthly Report Cards
 - Monthly Holdback reports
 - Monthly calls with MSR Sellers (larger bulk transactions)

Monitoring Post Servicing Transfer Operations & Performance

- Quarterly
 - Review of QC reports
 - Participate in HUD's 601 Asset Sales
- Semi-annual
 - On-site visit of sub-servicer operations
- Annual
 - Operational review by independent third-party
 - Review by independent auditors
- Ad-Hoc
 - Ginnie Mae Audits
 - CFPB Audits
 - State audits

Words of Advice

- Must be an active participant in the oversight
- They're your partner not a vendor
- Don't assume that all sub-servicers are the same
- Expect the unexpected
- Learn as much as you can about Ginnie Mae, FHA, VA & RHS
- Communicate with your Ginnie Mae team

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BOB FILIBERTO

Real Estate Mortgage Network, Inc.

Access to Data

- Subservicer Data Extract Files – Dashboard based on data warehouse
- Direct access to subservicer's system of record
- Report Cards
- Subservicer Monthly Billing Statement
- Reports – Daily, Weekly, Monthly – custom, one time, standard
- Data Integrity Exception reports
- Extract Data Files from Neighborhood Watch, FHA Connection, MERS

General Subservicer Oversight

- Onsite Visits
- Written Quality Control Plan in addition to Oversight Plan
 - QC Plan includes – Statements, Loss Mit, Claims, Lender Placed, Escrow Analysis, tax penalty, ARMs, payoffs, default, foreclosure expenses, curtailment interest, late charges, credit bureau, escrow advances etc.
- Review Audits, Financials, Ratings, SSAE 16, Personnel Changes
- Review training program, policy and procedures, internal controls
- Review Security Controls, Business Continuity and Disaster Recovery Plan
- Regularly Scheduled meetings
- Develop process for reporting gaps and corrective action plans

Customer Service

- Compliment Log – Satisfaction Surveys
- Complaint Log – CFPB, State, BBB, Customers, Loan Officers
- QWR Log
- Random sample review of recorded phone calls
- Utilization of an experienced Relationship Manager
- Establish and measure SLA's dealing with Customer Interaction – web or email inquiries, phone calls, returned calls, hard copy correspondence

Compliance

- Understand Subservicer's Compliance Plan and Strategy
- Develop Internal Compliance Plan and Strategy
 - AML, BSA, ECOA, TILA, HMDA, RESPA, HPA, SAFE,
 - FCRA, FDCPA, GLB, IRS, CFPB, etc.
- Plan also needs to include Investor, Agency, Insurer, State, MERS

Cash Oversight

- Subservicer Monthly Billing Statement – Review, QC and trend
- Bank Accounts – review and approve – this includes Test of Expected PI, Pool to Security Reconciliation and PI Advance
- Daily PI Advance Forecast
- Daily Payoff Activity Reports – Quotes, Payoffs, Re-conveyance aging
- Designated Approval Authority
- Controls around custodial documents
- Reconcile Issuer Feedback Report

Best Practices

- Deliver and maintain quality data
- Invest in a robust imaging system – deliver images timely
- Customize your servicing – you don't just have to service to minimum standards. Evaluate Enhanced Collections and Customer Service options
- Consider the option of subservicer's relationship with a special or component servicer
- CHOOSE A PARTNER – not just a subservicer!!

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QUESTIONS